The Sid Klein Comment
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JUST THE BEGINNING

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Summary of SKC market calls for this year in equity indices:

I felt that peak negative momentum was in the early part of the year, while actually turning bullish for mid-2008 in March/April, at which time I looked for a 3-6 month rally. I favoured the late summer/September scenario. As for the Dow, I felt that such a countertrend rally could even extend the Dow to 13,000.

Later, noting the weakness, I revised the best-case scenario to 12,500. Then, I just reminded readers to focus on the bigger picture instead of any near term and minor move that might not even happen. My main message became my most repeated one: When this drop's next leg gets going, it is going to under 9,000, and when it gets there, it will have gotten there fast.

There is nothing that so accelerates a decline, as a financial calamity. Fear for the system, and all that. My forecast of 9000 in 2008 may be achieved on the back of such fears.

Man fears chaos and disorder far worse than the fear of loss of liberty. When financial institutions' solvency is rightfully questioned, panic ensues. The worst is feared and experienced on an animalistic level.

The real estate bubble has led to a domino effect beyond what anyone can imagine. The only rescue for the Americans is to print paper, thereby righting off debt, which becomes past on to the foreigner, via the latter's losses in US investments.

News-wise, this 3000-point decline will have been laid at the feet of the ripple effect of collapse in real estate and the associated paper. The market sees which institutions are falling by the wayside, and what is observed is that it is the largest and the strongest are falling away.

Traders may hold vehicles that provide double leverage to the short side. This is for the 2% - 4% of one's wealth that the investor may wish to so allocate.

VIX

For the longest while, SKC has been publishing nearly ideal forecasts for the VIX and, more importantly, forecasting how to use the VIX, so as to understand and time the market for oneself going forward. Ordinarily, traders look at the VIX and make oversimplified deductions.

The most recent issues, targeted the explosion with pinpoint precision.

A trader will look at the VIX chart above and simply conclude that it is at a peak for the short term and that one should see a bounce in the market, as a result. That may have been a worthwhile observation at yesterday's close, but I'd like to turn attention ahead a few weeks (days?).

The VIX will now pull back and create a trading range between that level to which it pulls back, and yesterday's high. It is during the unsuccessful tests of yesterday's peak - while unable to surpass that VIX level - that the US equity market will be collapsing to new lows.

Long/short out-performance:

It is indeed a study, to learn of the relationship between out-performance charts and the global markets.

I started taking a keen interest in out-performance charts years ago, when I realized that they were serving as leads indicators. To what? Well, that depends.

As an (unrealistic) example, if I believe that France is going to start to out-perform Australia after a bear market versus the latter, then I might view the turn in the chart (the beginning of out-performance by France of Australia) as an indication that a peak in Australia is approaching.

There isn't one way to use this but, in any case, there is a strongly intuitive aspect. The implication of the foregoing is that if one wishes to use the cross-chart (out-performance chart) as a forecasting tool, then one must be calling an extreme in the cross-chart.

This is difficult in that there is no lead indicator (other than the standard ones), except that there is a great advantage on the other side: Cross-charts are easier to read as there's a certain amount of noise that gets filtered out. Also, the risks are easier to quantify.

<u>The practical message at this time</u>:
If the markets will have had a debacle coming its way over these last 4 months of 2008, then those lead indicators (global out-performance, or cross-charts) will have bottomed sooner. Duh.

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